Attachment 10

CalPERS

Memorandum

California Public Employees' Retirement System

Date: December 17, 2007

To: Members of the Investment Committee

From: Ron Seeling, Chief Actuary
Actuarial and Employer Services Branch

Subject: Actuarial Comments - Strategic Asset Allocation Recommendation

Comments from the Actuarial Office on the Strategic Asset Allocation Recommendation presented in Agenda Item 4b follow:

The Public Employees' Retirement Fund (PERF) includes plans covering the State, non-certified school employees, and over 1900 plans for local governmental agencies. These plans can be divided into three main groups, each with a different ability to deal with the impact of asset return volatility on their contribution rate to CalPERS. The first group, whose assets represent approximately 54% of all dollars in the PERF, has an asset to payroll ratio of less than 6. As a result of that low volatility, their contribution rates are not severely affected by asset volatility. The second group, whose assets represent 43% of the PERF, has an asset to payroll ratio of between 6 and 10. As a reflection of this increase, there is a corresponding increase in asset volatility. The third group of employers, representing 3% of the PERF, has an asset to payroll ratio greater than 10. Their employer rates will have the most variation when compared to other employers when investment returns are unstable.

The volatility in rates for all employers has been dramatically reduced as a result of the rate stabilization policies adopted by the Board in April 2005.

In addition, the funded status of the different plans in the PERF vary significantly At the end of the 2005-2006 fiscal year, June 30, 2006, the funded levels of the plans on a market value of assets basis were as follows:

State plans:	89%
Schools plan:	99%

Public agency plans vary.

The funded status on a market value of assets basis for the ten risk pools varies between 86% and 100% with an average of 91%.

For non-pooled plans, the funded ratios are as follows:

Percent of Plans	Funded Status
7%	Less Than 80% Funded
34%	80% to 90% Funded
40%	90% to 100% Funded
17%	100% to 110% Funded
2%	more than 110% Funded

(These numbers do not reflect the 19% rate of return enjoyed by the PERF for fiscal year 2006-2007.)

Employer contribution rates have been very stable for most plans in the PERF since the Board adopted the rate stabilization policies. The proposed asset allocation slightly increases the expected rate of return and the expected level of volatility of the returns as compared to the current asset allocation. Therefore, the proposal is expected to slightly decrease the expected level of employer contribution rates over time and also to slightly increase the volatility of those rates.

Based on the proposed asset allocation, the Actuarial Office would not recommend changes to the existing 7.75% investment return actuarial assumption currently being used.